

VZCZCXRO6789  
RR RUEHCHI RUEHFK RUEHHM RUEHKS RUEHPB  
DE RUEHNAG #0019/01 1150832  
ZNR UUUUU ZZH ZDK  
R 240832Z APR 08  
FM AMCONSUL NAGOYA  
TO RUEHC/SECSTATE WASHDC 0223  
INFO RUCPDO/USDOC WASHDC 0016  
RUEHKO/AMEMBASSY TOKYO 0230  
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION  
RUEHNAG/AMCONSUL NAGOYA 0240

UNCLAS SECTION 01 OF 02 NAGOYA 000019

SIPDIS

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [PGOV](#) [JA](#)

SUBJECT: CENTRAL JAPAN ECONOMIC OUTLOOK FALLS FROM VERY GOOD TO GOOD

NAGOYA 00000019 001.4 OF 002

#### Summary

-----  
¶1. (SBU) The pace of growth in Japan's manufacturing heartland has begun to level off. Regional producers are facing a stronger yen, higher prices for inputs, and a slowdown in demand in the U.S. market. Increasing demand from the "BRICs" (Brazil, Russia, India and China) is balancing those negative factors, though, and while less overwhelmingly positive than it has been since about 2003, the overall economic outlook for Central Japan remains good. One impact of the weak dollar may be an increase in exports of American-produced, Japanese-make autos. End Summary

#### Overall Economic Outlook

-----  
¶2. (U) Economic growth in Central Japan appears to be leveling off. On April 21 the Finance Ministry's Tokai Region Bureau lowered its outlook for the region for the first time in five years, saying "the expansion to date has begun to slacken." Although the Ministry saw capital investment, housing construction, and corporate profits continuing strong, it cited weakness in some segments of consumer demand and declining public works as negative factors. Meanwhile, the Ministry said the high rate of manufacturing production would continue but would level off and exports would continue to increase, but not as rapidly as in the recent past.

¶3. (U) Manufacturing expansion in Central Japan is generally considered one of the key drivers of Japan's current economic growth, so a slowdown in the region could have an impact on the broader economy. As of February (the most recent month for which METI statistics are available), the industrial output index for Central Japan stood at 135.0 (on a base of 100 equal to year 2000 output), down for the fourth consecutive month from its recent peak of 144.9 last October. In comparison, the nationwide index was at 108.2.

#### Auto and Other Production

-----  
¶4. (SBU) Central Japan produces about half of all autos nationwide. Auto production in the region has been mixed, up just one index point in February to 139.1 (on a year 2000 base of 100). Many observers view prospects for the sector as weak, and Toyota's stock has fallen nearly 20 percent since the start of 2008, in part due to concerns about decreased sales in the U.S. market. Beyond slowing American demand, Toyota and other Central Japan exporters are confronted with the yen's strength relative to the dollar. Toyota Americas Division General Manager Shunichi Nakanishi told us Toyota so far focused on

sales volume over per-vehicle profits and thus refrained from raising prices in the American market. According to Nakanishi, Toyota initially projected an overall 2008 American market of 16 million vehicles but has revised the figure to 15.3 million. That drop would represent about 100,000 less U.S. sales for Toyota if the company maintains its 16 percent market share. Nakanishi said Toyota hopes to absorb that drop by decreasing imports from Japan rather than cutting U.S. production. However, Toyota has already reportedly begun to cut production of pickups in Texas, minivans in Indiana, and trucks in California.

15. (SBU) Toyota Corporate Auditor Chiaki Yamaguchi told us that, despite the negative influence of the strong yen on import sales in the U.S., concerns in the press about the impact of exchange rates may be overblown. Yamaguchi says he believes even at 100 yen to the dollar, the Japanese currency is not particularly overvalued, especially in light of trends in consumer prices over the past two decades in the U.S., Europe and Japan. One significance of the weaker dollar, according to Yamaguchi, is that at current exchange rates Toyota vehicle exports from the U.S. to third countries, particularly in Latin America, are becoming economically feasible. Nakanishi told us Toyota sells Tundra pickups produced in Texas in six Latin American countries, but has been unable to do so in Venezuela, one of the most promising markets, due to a thicket of regulations, especially on transactions involving U.S. dollars. Likewise, exports to Brazil are hampered by a 35 percent tariff and a variety of other taxes on imported vehicles.

16. (SBU) The rapid increase in fuel and other commodity prices has weighed heavily on Central Japan manufacturers as a whole. Steel prices are up about 25 percent this year on a 200 percent increase in the price of coking coal and a 60 percent rise in the cost of iron ore. Nevertheless, Mitsubishi Trading Nagoya Branch General Manager Yoshikuni Kanai told us Nippon Steel recorded record production in March on strong orders from manufacturers. Surging economies in the BRICs have had both positive and negative impacts on Central Japan. The same demand

NAGOYA 00000019 002.4 OF 002

from China and India that's driving up the prices of inputs for regional manufacturers is also pushing increased demand for their products. Nagoya Customs District exports continue to increase, despite a consistent decline in exports to the U.S. since last July. That decrease has been overshadowed by a strong expansion in exports to Asia, up 15.7 percent year-on-year in February. Machine tool makers, a key sector for the regional economy, are reporting particularly strong results. Orders from the EU have risen 30 consecutive months and from Asia are up 13 of the past 14 months.

Comment

17. (SBU) Most of our interlocutors continue to express greater concern about the lack of workers, a shortage in good land for factory construction, and infrastructure issues than about weak external demand as constraints on regional growth. The just-in-time Toyota Production System used by many Central Japan manufacturers both inside and outside the auto sector mandates a constant flow of parts to suppliers further up the production chain. Concerns that road construction may not keep up with demand from industry may thus translate into political support for the Fukuda government's efforts to reinstate the gasoline tax to help support continuing road construction.

ROCHMAN